Is There a "China Model"? Devin Stewart Interviews Leo Horn-Phathanothai

Global Policy Innovations (GPI)
Leo Horn-Phathanothai, Devin T. Stewart

Transcript

DEVIN STEWART: Hi. I'm Devin Stewart, here at the Carnegie Council for Ethics in International Affairs in New York City. I'm sitting here with Leo Horn-Phathanothai. He is a policy specialist at the Bureau for Africa at the UNDP [United Nations Development Programme] here in New York City.

Leo, thanks very much for coming by and visiting the Carnegie Council.

LEO HORN-PHATHANOTHAI: Thanks for having me.

DEVIN STEWART: Leo, before you got your new stationing here in New York City, you were in China for six years, most recently as a national coordinator for the U.K.-China Sustainable Development Dialogue. That is a diplomatic mission, right? That's part of the British Foreign Service. You were also involved with looking at the carbon markets in China and lots of minutiae in Chinese strategies.

LEO HORN-PHATHANOTHAI: Just to correct you, it was a cross-governmental job, so I was reporting to the Foreign Ministry, as well as other ministries, including development and environment. So I wasn't, strictly speaking, a Foreign Service official, but I was a government employee.

DEVIN STEWART: Getting to our topic today, which you have a great deal of expertise to talk on in an informed way, is this idea of "China model." Looking back over the course of the past 20 years or so, there was an idea that there was a Washington Consensus in international economics, which essentially advocated balanced government budgets and open capital and trade policies, basically—free markets and balanced budgets—although hardly anyone in the OECD actually followed its own advice. It became more of an abstract idea, rather than being implemented.

As we see the rise of China in international affairs, we see the possibility of a challenge or a counterpoint to this cluster of economic advice. It has been termed the "China model" by some. Others have called it the "Beijing Consensus," as a challenge to the Washington Consensus.

Elements of the China model could include authoritarianism or closed government, state ownership and state presence in the economy, nevertheless using capital to create more wealth, to put it as simply as possible.

How do you see the China model? First of all, in your mind, am I characterizing it the way you see it? How do you use the China model being described, before we get to your analysis and critique of it?

LEO HORN-PHATHANOTHAI: I think there are many different characterizations of the China model, as many as there are characterizations of the correct model of economic development. My argument that I have been putting forward in various papers is to question this notion that there is an ideologically circumscribed, intellectually coherent set of policies or strategic decisions which
Some people have looked at China's success in lifting over 300 million out of poverty in the last 30 years and its success in going from one of the countries on the lower rungs of the world's economy to being now number three, or perhaps even now number two, in the world economy. People have looked at China's success and interpreted it in ways as to validate their own preferred theories of development.

So you have people who would characterize the China model as economic freedom plus political repression, and people who would look at China's experience and characterize the China model as export-oriented growth. Likewise, you would have others who would look at the China experience and say that the special ingredient in China's success was selective industrial policy, so more of a Japanese model.

Everybody will have a different take on the China model. I'm questioning the very notion that the China model is a useful way of understanding how China grew, how China developed, and, more importantly, what lessons there are or might be in China's development for other developing countries.

DEVIN STEWART: So you were an early critic of even the notion that a China model exists. I would like to get to that. You have a fairly developed critique that you have published and you have given lectures on, including at NYU.

If I'm understanding correctly, is one of your critiques that there is no one model that everyone agrees on?

LEO HORN-PHATHANOTHAI: I just think it's not a very illuminating way to draw lessons from China's successes. I want to just emphasize this point that I'm not pooh-poohing China's great achievements over the last decades in lifting over 300 million people out of poverty, which is an achievement on a humanity scale which is not to be sneezed at. There are obviously lessons to be drawn from that. What I'm questioning is the extent to which China is taking a deliberate, intentional approach which can be defined in an intellectually coherent way.

The keystone of China's success has been pragmatism. In a way, China's in itself negates the idea of a model. They have been pragmatic in seeking opportunities and cleverly exploiting the inescapable element of luck and also fostering innovation from the bottom up.

DEVIN STEWERT: What are some other ways that you question the idea of a China model?

LEO HORN-PHATHANOTHAI: When we think of a model, that entails three things:

- One is success. We want to have something to emulate.
- The other thing is replicability. There needs to be something that we could replicate in order for something to be viewed as a model for other countries.
- Third is the idea of intentional design or deliberate design.
I think on all three counts there is still room for debate:

- On whether China has been an unqualified success or not;
- The extent to which the Chinese experience is unique or replicable;
- The extent to which China’s success to date has been the result of a premeditated plan.

On the issue of success, there are obviously key ingredients that would be relevant to other countries—for example, an orientation towards exports, the gradual liberalization of prices in China, combined with an outward-looking investment regime. I think all of these things have undoubtedly contributed to China's great economic achievements.

On the other hand, we need to see all of these achievements in perspective. China's economic performance over the last 30 years has actually, if you compare it with the experience of Japan or the other East Asian Tigers at comparable stages in their growth, has not been that remarkable. It's entirely understandable, because, to a certain degree, they were pursuing similar strategies of export-led growth.

DEVIN STEWART: So it's consistent with the Asian Tigers and the story of Asian economic growth generally.

LEO HORN-PHATHANOTHAI: Absolutely. Actually, in the 1990s, everybody was talking about the Asian development model and the Asian miracle. Now we're talking about the China miracle. I see a lot of parallels, in fact, between the characterizations of the Asian development model and the characterizations of the China development model.

The more important point I want to make about China's success, though, is that the jury is still out. China's massive ecological crisis, the mounting social disparities, which are resulting in—it's like a pressure cooker in China right now. Last year there were over 87,000 protests—protests defined as more than 100 people coming together in a public space to protest—compared with only 7,000 about 10 years ago. So there has been an exponential increase in instances of social discontent.

DEVIN STEWART: What do you make of the spate of murders and suicides recently in China? Do you think it's tied to a general frustration toward the government? Or do you think, as some others have argued, on the contrary, that people are generally satisfied with the direction of their country in China? How do you see that?

LEO HORN-PHATHANOTHAI: China's growth has been polarizing. China's Gini coefficient, which is a measure of inequality, has in a few years already surpassed that of the United States, which is rather interesting for a communist country. The fruits of growth have been largely shared, but there are also a lot of massive swaths of the population who are excluded from this growth. There has been massive dislocation that has resulted from this growth, too. Urbanization is occurring on an unprecedented scale, going from about 20 percent 30 or 40 years to over 50 percent today—the largest movement of people from the countryside to cities ever seen in the history of humanity.

All of these things come with massive dislocation. If you look at the trends, you will see increases in instances of suicides and violent crimes, et cetera. These great transformations and dislocations are
an important backdrop for that.

But I also take issue with—I think it's a journalistic tendency to seize on anecdotes, sensational anecdotes, and extrapolate stories that might be a bit misleading about the situation in China.

DEVIN STEWART: You have identified several areas where the success factor of the China model is in question. You have talked about ecological problems. You have talked about income disparity, which is extremely important.

LEO HORN-PHATHANOTHAI: And endemic corruption is another massive issue.

DEVIN STEWART: That was going to be my next question. Where do you see the corruption environment going in China? How does it relate to social unrest or even the environmental and other problems?

LEO HORN-PHATHANOTHAI: Corruption is endemic in China. It is an issue that is of concern to the leadership. I don't think it's an issue that the leadership thinks can be addressed in a fundamental way overnight. It's an ongoing issue which the government has to grapple with. The reason it's important for the government to grapple with this is because it is undermining the very base of their legitimacy.

So far the Chinese government, the central government, has been able to protect itself from being contaminated by these accusations of corruption by blaming local governments. Local governments were characterized as corrupt, where the central government was characterized as virtuous. I think that kind of characterization is more and more difficult to uphold, especially in a society where the Internet is becoming much more of an active force in terms of monitoring the behavior of officials, et cetera.

DEVIN STEWART: Do you think the Internet can act as a positive force to combat corruption?

LEO HORN-PHATHANOTHAI: Absolutely. You are already seeing Internet-based movements leading to indictment of corrupt officials. More than that, you have seen instances of Internet-based movements leading to changes in policy.

So I think public participation via the Internet is emerging as a force, a progressive force, in Chinese politics. It's a force that I think the Communist government is also seeing a need to, not control, necessarily, in a negative way, but to harness.

DEVIN STEWART: How do government officials see this movement in the Internet? On one hand, I have heard some Chinese government players somewhat positive about the movement and the growth of an Internet culture and Internet communities, because they see it as almost like a proxy for a free press. But I would also think that some might be concerned about it getting out of hand.

How have you seen reactions to or evaluations of the Internet communities in China? What are your impressions?

LEO HORN-PHATHANOTHAI: I think there has been a learning curve. I think the government is realizing that the Internet is a very difficult beast to tame. A very good example of this is in the run-up to the Olympics in China, the government allowed some negative reporting of foreign critics of the
Olympics. But this went completely out of hand. I was in Beijing at the time. There were mobs of nationalistic young Beijingers who were so inflamed by Western criticisms—they're very proud of China—that they were descending upon the French school and they were wanting blood. The police had to intervene.

So there are instances where it has been very difficult for the government to control sentiment and these epidemics of social movements on the Internet.

DEVIN STEWART: I think it's a really important point to make. These foreign journalists in China probably think they are doing a public service. They are exposing corruption or abuse. I would think that journalists are thinking they're fighting the good fight and that, in some ways, they're helping the common Chinese citizen. But, meanwhile, you're telling me—and I have heard this from some Chinese—that they see the presence of foreign journalists to be kind of like meddling.

I think the point here is that, just like everything else in China, it's paradoxical.

LEO HORN-PHATHANOTHAI: Absolutely.

DEVIN STEWART: Both very good and very bad—or at least controversial.

Getting back to your China model critique, you have questioned so far the success. The other two points are being able to replicate it and—the other one after that was what?

LEO HORN-PHATHANOTHAI: The extent to which this is a deliberate design.

DEVIN STEWART: Design—tell me your argument about it being able to be replicated.

LEO HORN-PHATHANOTHAI: I think China is unique in many ways. It's unique by virtue of its size and its history. It has been a superpower in the past. In the early and mid-19th century, China actually accounted for about 30 percent of global GDP. So to a certain extent, what we see now is a reversion to an earlier trend—

DEVIN STEWART: Or profile.

LEO HORN-PHATHANOTHAI: To an earlier profile, exactly. The reason this is an important point to emphasize is because a lot of countries and a lot of commentators are looking at the China model as validation of certain regimes which may be authoritarian. I think the China model is used as validation of a model of growth which is basically economic liberty, economic freedom, plus political repression. I think that is a very dangerous mischaracterization.

I think the key thing is the social contract. In China there is a very unique social contract, where there is primacy given to the concept of social order versus individual freedom. The basic social contract in China is very different from what I see, for example, in most of Africa.

DEVIN STEWART: Do you relate this to the Confucian tradition in China?

LEO HORN-PHATHANOTHAI: The Confucian tradition is a very important part of that.

The second thing is that size is a lure in itself in the Chinese case.
DEVIN STEWART: The size of the country.

LEO HORN-PHATHANOTHAI: The size of the country. The fact that you have a massive latent pool of cheap labor, on the one hand, and on the other hand, you have a market of over 1 billion—all of these things make China an inherently attractive destination for international capital.

DEVIN STEWART: So they have leverage in terms of capital.

LEO HORN-PHATHANOTHAI: Exactly.

DEVIN STEWART: So they can call the shots and get away with it.

LEO HORN-PHATHANOTHAI: Yes.

DEVIN STEWART: What you're basically saying is, in a sense, China is unique. I think we all agree on that. I think all countries are unique. But let me ask you a somewhat playful question, going back to this idea of China reverting back to its grand place in international affairs. You hear this a lot. It is perceived to be the case that the Chinese and a lot of people in Asia see it as almost like an equilibrium. The equilibrium of international affairs is that China is a big player. That's the way it has been for more than 1,000 years. If you average it out, the past couple hundred years or so have been an anomaly.

I have a problem with that. I don't think that a country is preordained or mandated to have a place in history. We have seen many empires rise and fall, great empires, and countries have completely disappeared throughout history.

How do you view that notion, which is actually quite popular, that there is a natural place for China to settle and it's just going back to that place?

LEO HORN-PHATHANOTHAI: There is a fundamental paranoia about China's claim to a more important place in global affairs. You mentioned the Beijing Consensus. This is a term that, for me, reflects this kind of "paranoia" in an exaggerated way, but there is a fundamental discomfort with the fact that China is playing a more important role and is becoming more ambitious in terms of how it sees itself as a global player.

China does not see itself as a hegemonic power in the same way that the United Kingdom once did or the United States does. China does not have a missionary approach to international affairs. It is not motivated by a universalist ideology, or—

DEVIN STEWART: But couldn't that change?

LEO HORN-PHATHANOTHAI: It doesn't seek to promote a certain system of government. What is driving China's expansion overseas is very much domestic concerns of acquiring resources for its long-term prosperity.

DEVIN STEWART: Absolutely, but couldn't China's posture change over time? As Chinese government officials feel more comfortable with their security at home, maybe they might shift and become more evangelistic abroad. How do we know that the character of Chinese foreign policy will
be non-hegemonic or non-expansionist? Can we be certain that that will last?

**LEO HORN-PHATHANOTHAI:** I think it certainly is expansionist. Through the sheer momentum of its economy, it is being an expansionist power. I think the economic expansion is raising political issues for the Chinese state.

These are issues that are very much open, and there is debate inside the Communist Party itself about what kind of stance the Chinese government should take in international affairs. There are the hawks and then there are the more peaceful factions within government. The debate is still going on. The balance of power over these last few years has been shifting between these two factions. There is ongoing debate within the Chinese government.

It will be interesting to watch very closely what happens with the succession, when the new generation comes, the composition of the politburo, et cetera.

**DEVIN STEWART:** The last point or critique you have of the China model is the notion that this was by design. Tell me about that. What's your concern?

**LEO HORN-PHATHANOTHAI:** This again was the case with the Asian development model, the Asian miracle. People, of various ideological shades, seize upon a success story and reinterpret it in a way as to validate their own theories. There is violence to truth done in that. I think the hallmark of China's success has been a basic pragmatism, a refusal to espouse any complete scheme of change. I think that is the essential ingredient in China's success—you know, Deng Xiaoping's famous encomium to cross the river by treading on the stones, to feel your way through as you grow.

This has set the blueprint for Chinese development ever since the opening-up and reform policy was initiated in 1978. China has been experimenting. All the major reforms in China have resulted from a process of experimentation, usually on a limited jurisdictional scale. China has 32 provinces. The bankruptcy law, for example, was tested out in one province and then it was rolled out to the rest of the country. Similarly, the special economic zones in four provinces were an important precursor to a whole raft of market-oriented reforms that followed.

Another important example of China's pragmatism is the phased decontrol of prices through a dual pricing system, whereby some were set by the market, some were set by command-and-control.

In addition to the top-down experimentation, there was also a lot of bottom-up innovation and grassroots. In fact, most rural reforms in China were driven from the bottom up. The disbanding of the communes, for example, was initiated when a commune decided to break ranks with party orthodoxy and decided to sell their surplus food on the market. This was a reaction to a desperate situation and it spread. Within the space of a few years, almost the whole country had followed suit. These things were allowed by the state; they were not designed by the state.

But the wisdom of the Chinese government was to step back to observe changes and to make room for good practices to spread.

**DEVIN STEWART:** Do you think most Chinese government officials are aware of these limitations and agree that there are limitations on the idea of a China model, and therefore are reluctant to export the model?
**LEO HORN-PHATHANOTHAI:** Firstly, there is a discomfort, from the Chinese perspective, with regard to any characterization of China spreading a model of development. Part of that comes from the basic psychology of not wanting to attract too much attention, the peaceful—the "quiet rise" I think is a better characterization is trying to avoid the bells and whistles, and being given the space globally to do their own thing.

There is still a very powerful force within the Chinese government in favor of a do-it-quietly/don't-attract-too-much-attention approach.

On the other hand, you have the more hawkish elements, who are talking of soft and hard power, who are talking in geopolitical terms about turning the situation globally into one that is favorable for China—a much more proactive, one might even say aggressive, geopolitical kind of positioning.

**DEVIN STEWART:** Let's talk about that, applying the China model abroad or China in the world. You are very qualified to talk about China in Africa, for example. How do you see China's model of aid relations with poor countries? Is it neocolonialism, as some have alleged?

**LEO HORN-PHATHANOTHAI:** That's an interesting one. Again, you use the term "model." It's much more suitable to talk about a model of development cooperation, because there has been some deliberate thinking about this.

There's a lot to learn from how China does development cooperation. For example, its emphasis is much less on aid, on giving out grant money. It's much more on establishing economic ties. Once again, it's driven by pragmatism.

**DEVIN STEWART:** What does that mean, establishing economic ties?

**LEO HORN-PHATHANOTHAI:** It's exploiting economic complementarities. Africa has primary resources that China needs to fuel its growth. China has cheap goods that Africans need for their own economic growth and consumption.

So there is a marriage of convenience, to a certain extent. The basic economic complementarity between China and Africa is what underpins its development cooperation. In fact, aid is a very small part of the picture. Trade and investments dwarf that relationship. I would call this the Japanese model, if we are going to call it a model at all. In a way, China is drawing lessons from and emulating what Japan did to China in the 1970s. Japan was the first aid donor, as it were, to China. Japan at that time needed oil, and so they had a kind of barter agreement with China. I think it was something like $10 billion worth, where China would purchase capital investments to that amount in oil.

This is what China is doing in Africa with the resource swaps. It's resource for infrastructure. Chinese construction companies are going in and building up infrastructure—power plants, utilities, roads. In exchange, they are getting long-term concessions on resources, whether these are fisheries or forestry, et cetera.

There is a very hardnosed kind of commercial angle to this. Actually, "commercial" is belittling it. It's driven by self-interest, in a strategic sense, not just commercial. Some would say that's a very healthy basis upon which to build an economic relationship.

**DEVIN STEWART:** Is the Chinese economic presence in Africa seen as a welcome change?
LEO HORN-PHATHANOTHAI: It depends who you ask.

DEVIN STEWART: What have you heard?

LEO HORN-PHATHANOTHAI: If you ask bilateral donors, multilateral institutions—the West in general is nervous about it, because their economic and political dominance on the continent is perceived to be directly threatened. I don’t think it is if one thinks about it in strategic cooperative terms.

To come back to your question, if you ask African governments, I think most of them would be very happy about receiving a lot of investment from China. If you ask labor unions, it might be a completely different story, because one of the criticisms of Chinese aid is that it is labor-displacing. The evidence is mixed on that.

DEVIN STEWART: Labor-displacing in the sense that they are competing with African labor or they are also bringing over Chinese to implement these projects?

LEO HORN-PHATHANOTHAI: Both.

DEVIN STEWART: What is your assessment? Do you buy that?

LEO HORN-PHATHANOTHAI: The evidence is mixed on that. What we have been seeing are a lot of anecdotal accounts of Chinese companies basically shipping in boatloads of Chinese laborers, who work on a project and then leave, and there is no lasting economic benefit for the local communities within which these projects are occurring.

There is also, of course, a positive side to this. The Chinese approach has been to focus on turnkey infrastructure projects, where they bring in the expertise and the labor for very cheap. Chinese companies have been outbidding Western companies in terms of gaining infrastructure contracts with the African Development Bank and the World Bank. These are multilateral lending institutions which have very high standards of lending. So Chinese companies have been beating our international companies even at the highest standards of screening.

There was a study, in fact, that was done in the infrastructure sector itself by Stellenbosch University, which showed that Chinese investments in infrastructure have resulted in a net gain of something like 60,000 jobs for Africa.

Of course, that's not the full picture, and there are legitimate and very real concerns from labor unions about the labor-displacing impact of some Chinese investment.

DEVIN STEWART: While you were in China, you were the national coordinator for the U.K.-China Sustainable Development Dialogue. What is China's overarching strategy on energy and climate change? What are some of the big components that people need to know?

LEO HORN-PHATHANOTHAI: China sits on a vast reserve of cheap coal, which currently makes up about 70 percent of its energy mix and is going to continue being an important source of its energy supply going forward, from a basic energy security perspective, a cost perspective, et cetera. So one of the key challenges is really how to make that source of energy cleaner. Clean coal technology is
one important area of cooperation with China.

Another thing to note about China, energy, and climate change is that China is growing exponentially. It's growing very rapidly. There is a doubling of the economy every seven or so years. All the trends are pointing upwards in terms of energy, in terms of emissions, et cetera.

The key is to decouple emissions from economic growth. China will never accept a deal that constrains its ability to grow economically. So the challenge is how to shift China onto a cleaner development path.

DEVIN STEWART: How are they doing that?

LEO HORN-PHATHANOTHAI: They are doing that through investments, but I think more importantly, through a structural transformation of the Chinese economy.

China, if you think about it in comparative terms, is at a relatively low level of economic development. It's towards the end of its heavy industrialization. The economy needs now to move more towards the service sector as an engine of growth. It needs to move more towards consumption and domestic demand as an engine of growth. So there are structural changes that the economy will have to go through, which will make it less energy-intensive as well.

DEVIN STEWART: The last question before we wrap up. What happened in Copenhagen [2009 United Nations Climate Change Summit]? Should we expect China to be cooperative with the rest of the world on climate change?

LEO HORN-PHATHANOTHAI: China came under a lot of criticism in Copenhagen. It was seen as an obstacle to an agreement. In fact, the U.K. secretary of state for climate change, Ed Miliband, wrote an op-ed shortly after the Copenhagen conference blaming China for the failure of the Copenhagen climate conference.

What strikes me is that there was very little attempt to understand how China was constrained as a decision maker, as a participant, and as a negotiator at the table. We were all making a lot of allowances for the fact that Obama couldn't act without Congress.

Wen Jiabao was facing the same constraints. He did not have a mandate to make a decision that didn't have the backing of the party. That's the reason why he didn't turn up at the meeting of the 25 biggest emitters, where they were trying to hammer out a deal in the 11th hour of the conference. Everybody was desperate to find a solution. China, I think, was the only one of the 25 major emitters present which was not represented at the PM level. Wen Jiabao didn't turn up. He had the choice between revealing his lack of mandate, which would have been an embarrassment, and staying away from it. He chose the latter.

That move was perceived as an example of how China was arrogant and sabotaging the deal. In fact, the reality is that the prime minister himself was constrained. I think we need to shift the debate to understanding what the debates are and influencing and engaging with those debates, rather than being in a finger-pointing mode, because that will just lead to an entrenchment of positions rather than greater understanding of where there might be common ground.

DEVIN STEWART: If climate change is to be solved—and I think that is an open question—what do
you see for China and the rest of the world solving it? What do you see as a hopeful policy or move that we can look out for?

LEO HORN-PHATHANOTHAI: On China’s part, you mean.

DEVIN STEWART: Yes.

LEO HORN-PHATHANOTHAI: China has to show leadership as a global player on this issue. So far its position has been purely driven by domestic concerns. This is a more general point about China starting to get to new norms of international behavior.

The rules of engagement for China in foreign policy are rules of engagement that were set by Zhou Enlai back in the 1950s. These are based on the notion of non-interference, the primacy of sovereignty, et cetera. To a large extent, China is still behaving by those rules and upholding those rules. China is very principled in the way that it sticks to these core principles that were enunciated back in the 1950s.

But the world has changed. China has to be a more responsible player on issues of management of global public goods, climate being a chief concern in that regard.

So I think the change that one might hope for—and I don’t think that's necessarily very realistic—is a change in mindset from one where China is defending its developmental rights to one where China sees itself as a responsible member of the global community and, as a major emitter, a major part of the problem and the solution on a global scale. I think that would be the biggest change that one might hope for. Everything else will follow.

DEVIN STEWART: Leo, thank you very much for coming by the Carnegie Council today.

Leo Horn-Phathanothai is policy specialist at the Bureau for Africa at the UNDP in New York. We hope to see you again soon.

LEO HORN-PHATHANOTHAI: Thank you.

Audio
Does China really offer a new model for economic development? No, China has no coherent model, says Horn-Phathanothai. Its keystone is pragmatism and ad hoc experimentation, combined with the clever exploitation of luck and the fostering of innovation from the ground up.

Read More: Development, Trade, World Economy, Business, Climate ChangeDevelopment, International Trade, International Relations, Asia, Africa, Sub-Saharan Africa, East Asia, China

Copyright © 2013 Carnegie Council for Ethics in International Affairs